MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BBF2064 – ISLAMIC BANKING AND FINANCE

(All sections / Groups)

9 MARCH 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only.
2. Answer **ALL** questions. All the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Answer **ALL** questions.

QUESTION 1

A Clean, Secure Future: Reshaping Turkey's Energy Sector

In recent years, Turkey has dramatically stepped up efforts to develop its renewable energy resources through private investments. Between 2012 and 2015, the Islamic Development Bank (IDB) provided financing for the energy sector, supporting four renewable-energy development projects and six energy-efficiency projects. These are now making significant contributions to Turkey's energy mix, while providing many additional benefits as well.

This was the first time IDB used this type of financing, whereby under this mode of financing, IDB provides capital to TSKB (The Türkiye Sınai Kalkınma Bankası- known in English as the Industrial Development Bank of Turkey. TKSB is one of Turkey's leading development and investment banks and was the first bank to finance renewable-energy projects in the country) to invest in business enterprises, as per the agreed criteria. This approach eliminated the need for IDB to enter into individual financing agreements for each sub-project being financed. It also gave a lot of freedom to TSKB as the local executing agency, for example to use its own procedures for appraisal, quality assessment and risk assessment, as well as the procurement of goods and services. This financing complies with Sharia principles and is operationally compatible and administratively competitive with the Financing Facilities being extended by other development partners. It is also highly efficient and has client-friendly implementation mechanisms. These attributes will benefit IDB's future operations in member countries, allowing them to develop their own energy-sector projects. In particular, it will increase IDB's outreach to rural communities through local financial intermediaries. In this Facility, TSKB used its extensive knowledge of Turkey's energy sector to identify a pipeline of suitable, high-quality projects. The facility gave the bank flexibility it needed to screen and select the projects according to stringent criteria and continuously monitor them during implementation, yet still disburse funds swiftly. "This was key to the success of the agreement between TSKB and IDB," says Mr Burak Akgüç, TSKB's Executive Vice President. "We could activate our broader vision under a single financing facility."

(IDB Success Story Series: No. 28, May 2016)

a) Based on the above article, answer the following questions:

i. What type of equity-based contract that has been used as financial instruments offered by Islamic Development Bank (IDB) to The Türkiye Sınai Kalkınma Bankası (TKSB)?

(3 Marks)

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ii. Using a diagram, explain briefly on the mode of financing used.

(7 Marks)

iii. Based on the above financing, what is the role played by Islamic Development Bank (IDB) and The Türkiye Sınai Kalkınma Bankası (TKSB)? Highlight each of their responsibility which has been mentioned in the article above. (10 Marks)

iv. Based on the article above and your knowledge, please provide five (5) functions of Islamic Development Bank. (15 Marks)

b) Apart from the mutual contract among community participants, 3 other Islamic finance concepts also feature in Takaful products. This adherence to Syariah makes it appealing to Muslims. As such, it is a common misconception that Takaful is only available to Muslims, when in fact, Takaful products are designed to meet the needs of society at large, including non-Muslims. Discuss **THREE (3)** elements in insurance that are prohibited in Islam. (15 Marks)

(Total: 50 marks)

QUESTION 2

Muse Company has a large expanse of land near the Electric Train Service (ETS) station it owns. The company is planning to expand its business. However, it faced with liquidity management problems and therefore approaches you as an Islamic finance expert to get advice on the best method of getting liquidity through sukuk. What is the most appropriate sukuk structure you can suggest to the company to solve its liquidity problem, bearing in mind that the land near the ETS station can be converted to a car park. In addition, provide a diagram of your proposed sukuk structure.

(20 Marks)

(Total: 20 marks)

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QUESTION 3

a) Islamic Bank X (IBX) has MYR5 million surplus funds and wishes to place it out for 30 days. Similarly, Islamic Bank Y (IBY) is in need of a similar amount for the same tenure. After both parties agree with the terms of the transaction, the banks will then execute their commodity *murābaḥah* transactions through the Bursa Suq Al Sila (BSAS). BSAS is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions. IBX will first purchase Crude Palm Oil (CPO) from the (BSAS) at spot price (MYR5 million) and then sell the CPO to IBY at deferred payment, with 5 per cent per annum profit margin. IBY, through IBX acting as its agent, will subsequently sell the CPO to the BSAS at spot price (MYR5 million), thereby generating a placement. At the end of 30 days;

i. What is the profit payable to Islamic Bank X (IBX) ? (5 Marks)
ii. What is the rate of return for Islamic Bank X (IBX)? (5 Marks)

b) Aryan Corporations which is located in Malaysia would like to import goods from Indonesia. Due to capital constraints, Aryan Corporation approach Islamic Bank to get a financing. Aryan Corporation then purchases the required goods from the seller in Indonesia on behalf of the Islamic bank. Then Islamic bank pay the seller RM1,000,000 and resell the goods to Aryan Corporation at a price, which takes into consideration the profit margin 6 per cent and draws the accepted bill with tenure of 90 days.

i. Calculate Selling Price of the Islamic Banks to Aryan Corporation. (5 Marks)
ii. Profit of the Islamic Bank. (5 Marks)

(Total:20 marks)

QUESTION 4

Currently, the developments of Islamic swaps in Malaysia are quite encouraging. Islamic swaps are different from conventional swaps in that they are linked with asset-backed transactions such as Bai', Bai' Bithaman Ajil, Murabahah, Ijarah etc. Elaborate the three (3) main instruments of Islamic swap.

(Total:10 marks)

End of Paper